

Financial Performance Update 2018/2019 and Development of the Annual Budget 2019/2020

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<p><b>Forward Plan Reference:</b></p>	
<p><b>Summary:</b></p>	<p>The report sets out the financial performance against the approved Annual Budget for the first 3 months of the current financial year (April to the end of June), and a forecast outturn position. A verbal update will be given at the Board meeting of any significant changes in July and August.</p> <p>The report is also the formal commencement of the budget setting process that will ultimately lead to the Annual Budget for 2019/2020. This includes a recommendation for the Board to approve formally the changes to the Cost Sharing Agreement for the new Council to replace Taunton Deane and West Somerset from April 2019 onwards.</p> <p>The report also contains a request from the County Council for in-year savings, and proposals from the Managing Director and the Finance Officer as to how these could be met</p>
<p><b>Recommendations:</b></p>	<p><b>That the Somerset Waste Board:-</b></p> <ul style="list-style-type: none"> <li><b>i) Notes the summary financial performance for 2018/2019 year to date and the potential outturn position for each partner authority.</b></li> <li><b>ii) Considers the draft budget for 2019/2020 and the key factors that will influence the budget setting process.</b></li> <li><b>iii) Approves the changes to formulae in the Cost Sharing Agreement that relate to the new Council to replace Taunton Deane and West Somerset from April 2019 onwards as set out in Appendix 1.</b></li> <li><b>iv) Approves the approach set out in section 3 below in order to deliver the in-year savings requested from the County Council, and delegates to the Managing Director (in consultation with the Chair) the authority to conclude the necessary actions to deliver these savings, other than the potential contract extension with Viridor, which will be subject to a Board decision on 2 November.</b></li> </ul>

<p><b>Reasons for recommendations:</b></p>	<p>The Board needs to be aware of the financial performance of the Somerset Waste Partnership as it delivers the approved Business Plan and delegated waste service functions, to ensure that it is being managed appropriately.</p> <p>Having regular information regarding the pressures in the current budget will also give the Board a greater understanding of the requirements for the Annual Budget for the following financial year.</p> <p>In accordance with previous internal audit recommendations, officers provide in-year financial information for the Board alongside the regular Performance Monitoring reports as they are complementary reports.</p> <p>Partner authorities will need indicative budget figures as early as possible in order to consider their individual contributions to the Board budget, and to progress their own financial planning processes.</p> <p>As with the Business Plan, setting the next year's budget is an iterative process and the Board will be consulted regularly throughout the process.</p> <p>Any changes to the Cost Sharing Agreement require the approval of the Board. As this report commences the process for setting the budget for 2019/2020, there is a need for the Board to confirm the changes to the Cost Sharing Agreement at this stage, so that the budget can be shared equitably amongst partners.</p>
<p><b>Links to Priorities and Impact on Annual Business Plan:</b></p>	<p>The Annual Budget is linked to the Annual Business Plan and sets out the financial resources required to deliver the Plan and the waste collection and disposal services that have been delegated to the Somerset Waste Board. Financial monitoring will show how the Partnership is managing its resources as it delivers the Annual Business Plan.</p>
<p><b>Financial, Legal and HR Implications:</b></p>	<p>Any in-year underspends attributable to partners against the Annual Budget are traditionally made available for return or for reinvestment. Conversely, failure to stay within the Annual Budget for the Somerset Waste Partnership will directly impact on the partner authorities, who would be required to make good any shortfall at year end.</p> <p>When considering the draft Annual Budget for 2019/2020, current trends in demographic growth, service uptake and waste tonnages arising in 2018/2019 will be a key contributory factor in shaping the forward budget.</p>

	<p>In proposing the first draft of the 2019/2020 budget, officers have assumed that the Cost Sharing Agreements will be accepted by members. This is in accordance with the financial report brought to the June Board.</p> <p>Figures presented within this report are based on the current service. As Recycle More will only commence in April 2020, the Annual Budget for 2019/2020 is largely unaffected by any decisions that the Board will make on the future kerbside service delivery. Therefore, as with previous reports, costs and activity relating to Recycle More will be reported on separately.</p> <p>There are no HR implications of this report. The legal implications (changes to the Board's Constitution) necessary to respond to the Structural Change Order related to Taunton Deane Borough Council and West Somerset Council will be addressed in a future board report.</p>
<b>Equalities Implications:</b>	None.
<b>Risk Assessment:</b>	Members will be aware from previous reports and presentations that the waste budget and actual costs, particularly disposal volumes and recycling credits, remain highly volatile.

## 1. Background

- 1.1. The Annual Budget for 2018/2019 was originally set at the Board meeting of 23<sup>rd</sup> February 2018 at £45,145,256. Partners contribute to the overall costs in accordance with our Cost Sharing Agreement. Individual contributions are based on key cost drivers such as household numbers, sparsity and garden waste customer numbers. As the waste disposal authority, all such costs fall to the County Council.
- 1.2. Our Annual Budget is predominantly spent on making payments to our main contractors – Viridor and Kier.
- 1.3. As was reported to the June Board, the decision for a new Council to replace Taunton Deane and West Somerset from April 2019, requires changes to the Somerset Waste Partnership's Cost Sharing Agreement.

At the June Board, members delegated to the Senior Management Group the task of reviewing the key parts of the Cost Sharing Agreement and ensuring proposing changes that met the following criteria:-

- Minimal changes to be made to the Cost Sharing Agreement for this change of partners, recognising that there will need to be a fuller

review of the Agreement for April 2020 with a new contractor, new contract and the commencement of Recycle More.

- That these changes avoid any cost shunting, and that no authority is better off or worse off as a result of the new council. Members wanted the impact on the first year's budget to be cost neutral to all partners.
- That the proposals maintained the key principles upon which our Cost Sharing Agreement is based, namely that "costs . . . are shared on a fair and equitable basis" and that we apportion costs in "the most logical and transparent way possible", "being mindful of the need to avoid any one Partner Authority subsidising another".

## 2. Current Financial Position

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	TDBC £'000	WSC £'000	Total £'000
Head Office	(25)	(1)	(1)	(2)	(1)	(0)	(31)
Disposal Costs	(508)	0	0	0	0	0	(508)
Collection - Recycling	0	0	0	0	0	0	0
Collection - Refuse	0	0	(0)	(0)	0	(0)	(0)
Collection - Garden	0	(0)	(0)	(0)	(0)	(0)	(0)
Collection Costs	0	0	0	0	0	(0)	0
Recycling Credits	0	0	0	(0)	(0)	0	0
Container Purchase & Delivery	0	0	0	0	(0)	0	0
Other	0	(5)	(5)	(6)	(5)	(2)	(23)
	<b>(534)</b>	<b>(6)</b>	<b>(6)</b>	<b>(8)</b>	<b>(6)</b>	<b>(2)</b>	<b>(562)</b>

The table above shows the variations from budget on all our major expenditure areas. **For the avoidance of doubt in the table above, negative figures shown in brackets are underspent budgets. Figures not in brackets are overspent budgets.** (A zero figure indicates that the line is on budget, or that it is not a budgetary responsibility of that partner).

Overall, the end of June position shows that the Somerset Waste Partnership budget is forecast to be **underspent by £562,000** (1.24% of the original budget), albeit on relatively limited actual costs in the year to date. This does not include the Recycle More contract work, which is funded from a separate reserve.

### 2.1. Waste Collection

Estimated figures for the collection partners indicate a potential combined **£28,000 underspend** across the 5 partners at this stage.

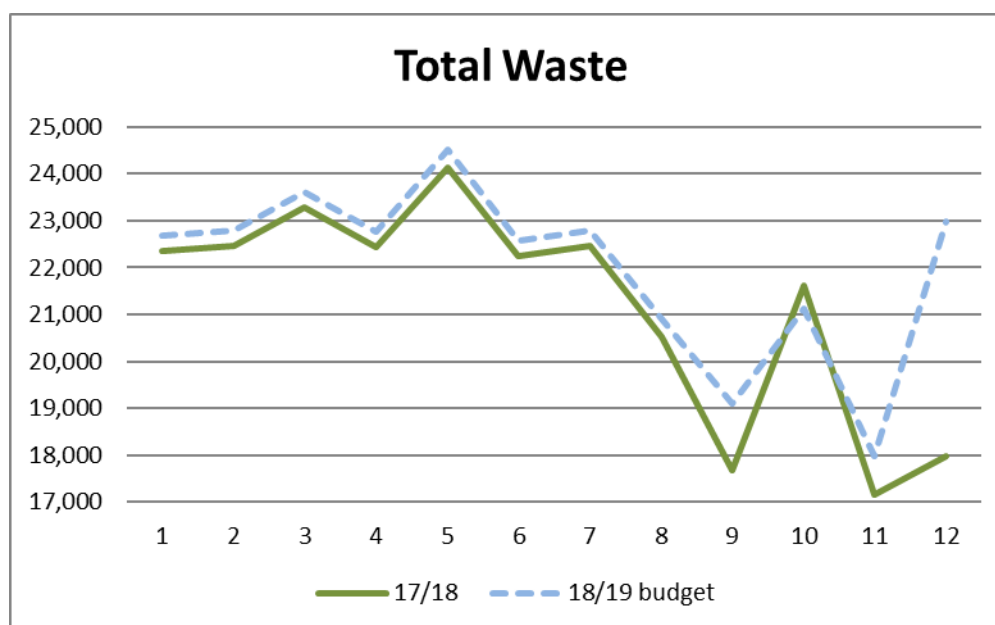
This is because of income above budget from financing vehicles (PWLB) and small savings on Head Office costs.

It should be noted that this is based on very limited collection data, particularly recycling credits and variable collection items such as bulky collections and replacement containers

**2.2.** The Recycle More earmarked reserve held on behalf of the Districts at the start of this financial year stood at £370,606. To date a total of £61,000 has been spent. The additional £246,000 contribution from the County Council for one-off disposal costs associated with the roll-out of Recycle More, such as delivery and tipping points, plus additional staffing support, has currently not been spent.

### **2.3. Waste Disposal**

Waste disposal costs are forecast to underspend by £534,000. Approximately £305,000 of this figure relates to one-off accruals for March last year. To meet the accelerated statutory closing deadline, the amount of waste for March was estimated (as usual). Whilst the figure for March was estimated below the normal levels, because of the heavy snow, the drop in tonnages was even more significant, dropping to 18,000 tonnes. As this accrual is reversed in the 18/19 financial year, the difference between the forecast spend in March and the actual spend (£305,000) is a one-off saving. In addition waste volumes at the last Quarter of last year were lower than the profile used to set the 18/19 budget (which relies on Quarter 3 data). Assuming the current year follows the 17/18 trends and profile there is a tonnage saving against budget to the value of £264,000. Without these two factors, there would have a minor overspend. The graph below illustrates the position.



All forecasts are based on the tonnages in the first quarter of the year compared to the same period last year, although volumes continue to be volatile and dependent on outside factors such as the weather. An emerging pattern for July and August has been the hot, dry weather and the impact on green waste tonnage. Further work will be needed to finalise the exact financial impact, but initial indications are positive.

### **3. In-Year Savings Request from the County Council**

Recognising the difficult financial position that it faces, the County Council has requested an in-year saving from the Somerset Waste Partnership in addition to the current underspend reported above. The County Council has asked that an additional £800,000 of in-year savings be considered, preferably of an on-going nature.

It is entirely acceptable for one or more partners to make in-year or future year savings requests in the Somerset Waste Partnership's budget, but it is the decision of the Somerset Waste Board as to how these savings are to be achieved. The approach proposed by SWP to achieve this savings request is made up of 3 elements:

#### **3.1. Core services contract review**

As set out in the 2018-23 SWP Business Plan, SWP have been undertaking a review of the core services contract with Viridor. The Core Services contract held with Viridor Ltd is currently due to expire on 31st March 2022, although it contains an option to extend for a period of up to nine (9) years (to 31st March 2031). Whilst the total disposal budget is £25.2m per annum, only £9.8m of it is within scope (Avonmouth & AD excluded). The review aimed to identify whether a core services contract extension delivers best value to SWP, aligns with our vision and meets forecast need.

SWP's review and negotiations with Viridor to date have identified that there is significant scope for savings from non-customer-facing changes, and these are likely to dwarf any savings from customer facing changes. It has showed that our Recycling Centre Performance is UK leading, that the convenience of our network of sites is particularly valued by Somerset residents, but that our opening hours don't match demand as well as they could. Having reviewed various options for the future of our recycling centre network, negotiations have been undertaken on the basis of ensuring that all 16 of our recycling sites remain open, but using an evidence based approach to ensure that operational hours are amended to better reflect current and forecast demand.

It is proposed to bring a full report to the Somerset Waste Board at the 2 November Board meeting to seek the Board's approval to a potential contract extension (including details of the implications for each individual recycling centre), as by this point we will know whether Viridor's parent company (Pennon) are able to make an offer which meet's SWP's requirements. If approved by the Board and by Viridor's parent company, this would release £300k in 2018/2019 with further savings following.

#### **3.2. Non-customer facing budgetary proposals**

There are a number of proposals – none of which affect the current service provided to the public or shunt any costs to other partners- that have been considered by the Managing Director and his staff, and that the Board are asked to approve, totalling £220,000:-

- The release of one-off reserves (retaining £20,000 for small works) in relation to the Chard HWRC Reuse Shop construction (where no suitable tenders were received), and plans for a small redevelopment of Frome HWRC will release £100,000;
- An analysis of the flytipping budget shows that with the reduced volumes being experienced a small saving of £30,000 can be made, without any impact on the financial obligations to the District partners;
- An expected underspend in clinical waste disposal budget of £40,000;
- An expected underspend on HWRC waste minimisation bonus of £50,000;

### **3.3. Potential further reductions in waste volumes**

Should there be further underspend as a result of a reduction in waste volumes, then this would deliver a further saving (a 1% decrease across all waste streams would result in around £200k savings). The current business plan already sets out the priority SWP attaches to targeted waste prevention and waste minimisation initiatives (in particular around food waste, the schools against waste programme, plastics) and these activities are ongoing. However, there is clearly an increased risk in realising this saving as it is largely dependent on factors outside our control, such as the weather. To achieve the SCC savings target this would require volume reductions to deliver an additional £280,000. Members are reminded that the County Council, as disposal authority, retains all the financial risk on disposal costs.

## **4. Indicative Annual Budget forecast for 2019/2020 – Collection**

- 4.1** The table below shows the indicative budget requirements for 2019/2020. The inflation and growth assumptions are as listed. There is no impact of Recycle More on these figures. The forecast is now based on the 4 collection authorities, and has been calculated using the changes to the Cost Sharing Agreement as set out in Appendix 1. These changes will ensure an equitable Cost Sharing Agreement from 2019/2020 onwards. These have been discussed by the Senior Management Team twice and reflect the principles agreed by the Board in June. The reason that the new Combined Authority is seeing a higher percentage increase than other collection partners is due to the Combined Authority absorbing the £30,000 remaining subsidy that West Somerset District Council received to support the business case for rolling out Sort It Plus. This subsidy (the West Somerset Business Case) was agreed by other partners as it reduced the overall roll-out costs of Sort It Plus. As the business case for this subsidy effectively disappears on the creation of the new combined authority, it is proposed to remove this subsidy with effect from the date of creation of the new authority (April 2019).

The table below shows the indicative budget requirements for 2019/2020. The inflation and growth assumptions are as listed. There is no impact of Recycle More on these figures. The forecast is now based on the 4 collection authorities, and has been calculated using the changes to the Cost Sharing Agreement as set out in Appendix 1. These changes will ensure an equitable Cost Sharing Agreement from 2019/2020 onwards. These have been discussed by the Senior Management Team twice and reflect the principles agreed by the Board in June. The reason that the new Combined Authority is seeing a higher percentage increase than other collection partners is due to the Combined Authority absorbing the £30,000 remaining subsidy that West Somerset District Council received to support the business case for rolling out Sort It Plus. This subsidy (the West Somerset Business Case) was agreed by other partners as it reduced the overall roll-out costs of Sort It Plus. As the business case for this subsidy effectively disappears on the creation of the new combined authority, it is proposed to remove this subsidy with effect from the date of creation of the new authority (April 2019).

No growth has been assumed on recycling credits, and this remains based on current performance. The increased income for collection partners relates to the agreed 3% annual payment uplift from the County Council.

Household growth is an early estimate based on prior years actuals. Members are reminded that each collection partner will be charged according to their individual District housing growth.

#### EARLY WASTE INFLATION ESTIMATES

		MDC	SDC	SSDC	SWaT
18/19 Final Budget		3,463,461	3,609,494	5,166,003	4,842,898
Inflation - Collection	<b>3.0%</b>	114,362	118,033	168,671	160,233
Household Growth	<b>1.0%</b>	28,311	28,278	42,065	38,987
Garden Waste	<b>2.0%</b>	6,647	8,406	9,373	10,444
Recycling Credits		(15,562)	(14,852)	(22,844)	(20,742)
Salaries	<b>2.0%</b>	2,030	2,154	3,026	2,841
Pension Deficit		0	0	0	0
Transfer station offset		(1,945)	(2,064)	(2,899)	(2,722)
New Authority changes		(3,039)	(3,488)	(4,652)	24,907
Bulkies / Containers		(2,165)	(2,180)	(2,889)	(3,526)
Waste Projects		0	0	0	0
Proposed Savings		0	0	0	0
19/20 Budget		3,592,099	3,743,783	5,355,855	5,053,319
<b>Increase / (Decrease)</b>		<b>128,638</b>	<b>134,288</b>	<b>189,851</b>	<b>210,421</b>
<b>Percentage</b>		<b>3.7%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>4.3%</b>



## 4.2 Disposal Factors

Estimating the disposal figures at this stage is difficult, because we are 9 months away from the start of the financial year, and volumes and mix have remained volatile for some time (permits, snow, sun etc).

However, initial forecasts are:-

- Landfill Tax rates from 1 April 2019 have been confirmed by the Treasury as **£91.20 per tonne**. This is an increase from £88.95 of 2.53% on the 2018/2019 rate. Based on the projected current tonnages budget, this would cost an additional £268,000.
- Contract inflation for disposal is based on a number of indices within the various disposal contracts. These are highly volatile, particularly the civil engineering (“Baxter”) index, which is an industry standard and includes a significant fuel element. Indices for disposal run from February 2018 to February 2019 and are not published until March. An estimated figure will therefore be reviewed throughout the year and updated as the indices change. The current estimate is for an additional £608,900.
- Volume growth will be based on the latest available data ahead of the December draft budget, reviewed if necessary ahead of the Annual Budget setting in February 2018. The initial assessment is based on 1.5% growth. Despite fluctuations in recent years, this has been reasonable accurate for forecasting purposes, but will be reviewed as further disposal tonnages arise. This increase would cost £318,300.
- The standstill cost for the disposal budget is therefore £1,195,200, an increase of 4.26% on the original 2018/2019 budget.

## 5. Consultations undertaken

- 5.1. The Senior Management Group receives a summary financial management report on a regular basis, and regularly covers financial topics on their agenda. The approach to the Viridor negotiations was agreed with SCC officers and their representatives on the Board, and SMG have been kept up to date with the progress on negotiations.

## 6. Implications

- 6.1. Potential over and underspends as in section 2 above, if trends continue, would result in these figures at outturn for the individual partners.
- 6.2. Financial trends as set out above will be incorporated in the setting of the Annual Budget for 2018/2019, as set out in section 3 above.
- 6.3. If approved, the new formulae will form part of the Cost Sharing Agreement for 2019/2020 onwards, subject to review at the commencement of Recycle More
- 6.4. If approved, the proposals and budget reductions that are required to deliver the additional savings will be implemented as soon as practical, including finalising any necessary contractual negotiations with our disposal contractor, Viridor.

## **7. Background Papers**

- 7.1.** Previous Financial Performance and Annual Budget reports to the Somerset Waste Board (all available on the website or from the author).